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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BME1024 – INTRODUCTORY MACROECONOMICS (All sections / Groups)

10 MARCH 2020
9.00AM – 11.00AM

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Differentiate between the income method of calculating gross domestic product (GDP) and the expenditure method of calculating GDP? (9 marks)

(b) Table 1 shows the labour statistics for three states in a hypothetical country. Compute the missing figures in Table 1. (16 marks)

Table 1: Labour Statistics

| State | Working age population | Labour Force | Employed | Unemployed | Employment Rate | Labour-Force Participation Rate |
|--------------|------------------------|--------------|----------|------------|-----------------|---------------------------------|
| First state | 218,948 | ii | 125,020 | 7,000 | vii | 60.30 |
| Second state | i | 53,740 | iii | 5,154 | viii | 57.41 |
| Third state | 140,318 | 79,182 | iv | v | 90.31 | viii |

(Total: 25 marks)

QUESTION 2

(a) Briefly discuss whether lack of freedom in many developing countries constitutes an obstacle to their economic growth. (10 marks)

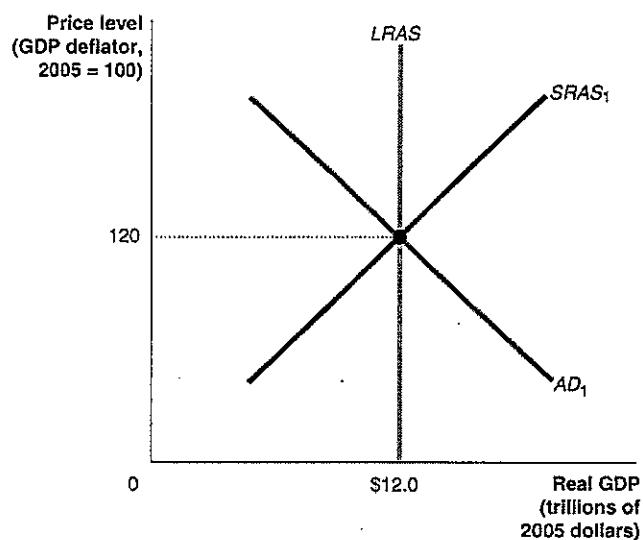
(b) The federal government of Malaysia is assumed to be running a very large surplus. Use a market for loanable funds graph to illustrate the effect of the federal budget surplus on the equilibrium savings, investment, real interest rate and the quantity of loanable funds? (15 marks)

(Total: 25 marks)

Continued

QUESTION 3

(a) The following graph illustrates an economy in long-run equilibrium at a price level of 120 and real GDP of US\$12.0 trillion. Assume that an increase in real estate prices raises household wealth. Use a graph to describe the changes in aggregate demand and aggregate supply that result in a short-run and a long-run equilibrium following the increase in household wealth. (15 marks)



(b) Briefly explain **FOUR (4)** functions of money. (10 marks)

(Total: 25 marks)

QUESTION 4

(a) Define fiscal policy and explain the meaning of the automatic stabilizers versus discretionary fiscal policy. (10 marks)

(b)

(i) Fill in the missing the values in Table 2 assume that the price of Big Mac is 5.75 US Dollar in the United States. (6 marks)

(ii) Explain whether the US Dollar is undervalued or overvalued against the other currencies and predict what will happen to the future exchange rate. (4 marks)

Continued ...

(iii) Calculate the implied exchange rate between the Malaysian Ringgit and the Singaporean Dollar and show which currency is overvalued in terms of the Big Mac index. (5 marks)

Table 2: Exchange rate

| Country | Big Mac Price | Implied exchange rate | Actual Exchange Rate |
|-------------|-----------------|-----------------------|-------------------------------|
| Malaysia | 8.90 Ringgit | | 4.16 Ringgit per US Dollar |
| Indonesia | 31700.79 Rupiah | | 14026.90 Rupiah per US Dollar |
| Philippines | 140.72 Peso | | 50.80 Peso per Dollar |
| Vietnam | 65085.28 Dong | | 23244.74 Dong per US Dollar |
| Singapore | 5.79 Sin Dollar | | 1.36 Sin Dollar per US Dollar |
| Thailand | 117.17 Baht | | 30.36 Baht per US dollar |

(Total: 25 marks)

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